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Remarks:

Executive Secretary
4/20/82
Date

S/S 8311802
United States Department of State
XR-8311801
Washington, D.C. 20520

April 19, 1983

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(With Confidential Attachment)

Senior Interagency Group No. 34

TO: NSC - Mr. Michael O. Wheeler
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. John Stanford

OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Treasury - Mr. David Pickford
Interior - Mr. Barry Allbright
Transportation - Mrs. Katherine Anderson

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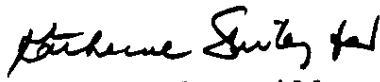
SUBJECT: IESG Meeting

The next meeting of the International Energy Security Group (IESG) will be held Friday, April 22, 1983 at 9:00 a.m. in Room 6824, State Department. The agenda will be as follows:

- 1) Prospects for Energy Alternatives in Europe (Ambassador Galbraith)
- 2) OECD/IEA Energy Requirements Study and Policy Conclusions (Ambassador Fairbanks/William Martin)
- 3) US-Japan Energy Working Group (Under Secretary Wallis)
- 4) Alaskan Oil Exports (William Martin).

A draft report of the Working Group on Alaskan Oil Exports will be distributed on Thursday. IESG members should come prepared to make substantive comments on the options. A summary of discussion at the US-Japan Energy Working Group meeting held April 6-7 will be available at the meeting.

Attached is a Summary of Discussion of the IESG Meeting held on March 30, 1983.


Charles Hill
Executive Secretary

Attachments: a/s.

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MEETING OF INTERNATIONAL ENERGY SECURITY GROUP MARCH 30, 1983

Summary of Discussion

Energy Requirements Study

Ambassador Fairbanks reported to the Group on the previous week's IEA meetings in Paris on the Energy Requirements Study and related issues. With U.S. support, the IEA Governing Board decided March 24 to schedule a Ministerial meeting May 8. Principal items on the Ministerial agenda will be agreement on policy conclusions to the Energy Requirements Study and discussion of the oil market situation. Secretary Hodel will head the U.S. delegation. Secretary Shultz may be able to participate in the meeting or the dinner, depending on his schedule.

Prior to the Governing Board, IEA Executive Director Lantzke had circulated a draft containing "ideas" for policy conclusions to the Energy Requirements Study. Based on comments he received during and after the Governing Board, Lantzke will be revising the draft; and Ambassador Fairbanks said he expected a new draft to be distributed shortly. (N.B. The draft was circulated April 13.) Overall, Ambassador Fairbanks characterized the conclusions as not everything we would want, but a good basis for further work.

Looking ahead, Ambassador Fairbanks said there was much work yet to be done. There would be further discussion of the energy requirements study and policy conclusions at the IEA/SLT meeting on April 7-8; the IEA's Natural Gas Study would be available April 14; and the SLT would meet twice more before the Governing Board's next meeting April 27. It was our intention to use the SLT discussion to bring along the smaller countries. The French were "officially unhappy" over the course of events, preferring that conclusions be drawn individually by governments or exclusively at Ministerial level.

Mr. Martin (NSC) added that he thought the oil, coal and nuclear sections were substantially in place. On gas, although more work needed to be done, the draft contained all three aspects -- the notion of a cap, acceleration of work on Troll, and improved security measures -- needed to meet NSDD 66 conditions. Mr. Martin observed that so far the Germans were being helpful, and that they seemed to understand the need for a political conclusion to the exercise.

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Mr. Schotta (Treasury) requested that the next draft of the conclusions be circulated to all interested agencies. He then asked whether further consideration would be coordinated through the SIG-IEP. Under Secretary Wallis replied that this would depend on timing, but that he would report to the SIG-IEP in any case.

Alaskan Oil Export

Mr. Martin (NSC) summarized work on the paper analyzing the Alaskan oil export issue. He said a first draft of the paper was available, but that it was lengthy and still had gaps. A final paper should be in hand by about April 8. The foreign policy section would benefit from revision to include the results of the US-Japan Energy Working Group meeting (April 6-7).

Mr. Martin highlighted the following conclusions of the DOE technical analysis:

- On economic grounds one can expect that considerable quantities of oil will flow to Japan, even though some Japanese have said they are not interested in large amounts;
- Overall the U.S. economy benefits through the complete lifting of the ban, although the maritime sector loses;
- A partial lifting of the ban (to permit export of 100,000 to 200,000 b/d) would harm the maritime industry much less, as some tankers are to be scrapped soon in any case;
- Lifting the embargo might have a favorable environmental effect since this would cut down on West Coast tanker traffic;
- Anticipated declines in North Slope fields after 1986 would have energy security consequences for the U.S. By increasing producer netbacks, purchases by Japan may improve the incentives for new production investments and perhaps make such declines less likely; and
- Alaskan North Slope crude would provide the Japanese with an alternative to greater dependence on the Soviets (Sakhalin).

Mr. Martin said he believed a good case can be made with the Congress for lifting the embargo now. Japanese concessions in energy or other areas would aid this effort.

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Mr. Silvey (DOE) summarized the DOE technical analysis, reinforcing several of Mr. Martin's points, and adding that currently a "major incentive" to transporting oil to the Gulf is the ability to write off shipping costs against the windfall profits tax.

Mr. Khedouri (OMB) said he understood there remained substantial differences in view between DOE and Transportation regarding the basic analytical findings. A consensus should be reached before the issue is taken to the Hill. Mr. Schotta noted that the GAO had been looking into Alaskan oil exports as well.

U.S.-Japan Energy Working Group

Under Secretary Wallis summarized preparations for the initial meeting of the U.S.-Japan Energy Working Group scheduled to take place in Washington April 6-7. He said he would chair the U.S. side with Norm Bailey (NSC) serving as Vice Chairman. Deputy Foreign Minister Motono and MITI Vice Minister Komatsu would co-chair the Japanese delegation. Secretary Hodel had agreed to make introductory remarks. While the question of Alaskan oil exports might dominate the discussion, we would want to convey the impression to the Japanese that there are other important issues as well, e.g., coal and gas.

Mr. Bailey (NSC) added that the major objective for the Working Group should be to identify artificial constraints in the U.S.-Japan energy market.

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